MEMORANDUM

TO: California Members of Congress Representing the Beet Sugar Industry

FROM: David Bieging
Washington Counsel to Southern Minnesota Beet Sugar Cooperative

DATE: August 23, 2006

SUBJECT: **Status of California Beet Sugar Marketing Allotment Allocation**

During Congressman Radanovich's visit to the Spreckels sugar factory in Mendota on August 15, we had a wide-ranging discussion of the current Farm Bill's method for making allocations of the national beet sugar marketing allotment. I thought it would be useful to summarize how it works and what the current status is.

Under the 2002 Farm Bill, allotment allocations are made to "processors," not to individual factories or growers. A beet sugar processor is a company that commercially produces sugar from beets, has a viable processing facility, and has a supply of beets. Most beet sugar processors have more than one factory.

The amount of the allotment allocation assigned by USDA to a processor is based on the quantity of beet sugar produced by that processor at all of its factories during crop years 1998 through 2000. Using a weighted average of those three years, USDA determines what market share each processor is to have. USDA uses a kind of "snapshot" of the beet sugar processing industry taken at the end of crop year 2000, which was September 30, 2001. USDA makes certain required adjustments and then determines what size will be the "slice of the pie" that each processor gets. It is a zero-sum game, meaning that if one processor is granted additional allocation, others must be reduced proportionately. If a processor markets over the limit of its allocation, it faces a civil penalty of three times the value of the excess sugar it sells.

The allotment allocation under which sugar from Mendota may be sold was first determined when the current Farm Bill took effect by measuring the production of beet sugar from the four factories of the processor, Holly Sugar Corporation, a wholly-owned subsidiary of the Imperial Sugar Company of Sugarland, Texas. Holly's factories during the baseline production period were located in the California communities of Mendota, Brawley, Woodland and Tracy. Under one of the adjustment provisions in the 2002 Farm Bill, Holly's production from the four factories was reduced by 1.25 percent of the total national beet sugar marketing allotment as a result of Holly's decision to close the Woodland factory and it was reduced by another 1.25 percent of the nationwide allotment as a result of its decision to close the Tracy factory, for a total reduction in Holly's historical beet sugar production of 2.5% of the national allotment.

These two factory closures occurred during the 1998 through 2000 crop years. The Farm Bill calls for a reduction of 1.25 percent in any processor's allocation if it closed a factory during that period. As it turned out, this adjustment provision of the Farm Bill applied only to Holly. Other processors have closed six factories in recent years, but they did it outside the 1998-2000 crop year time period

Southern Minnesota's allocation to be sufficient. It would make it much more feasible for California growers to buy the factories and operate them at a profit.

On the other hand, if the unfairness of the current beet sugar marketing allotment allocation formula is not corrected in the new Farm Bill, then financial realities would likely dictate that the Mendota factory would be closed.

California growers are efficient producers and they want to continue growing sugar beets. The number of open-field row crops realistically available to the state's producers is becoming more limited. Sugar beets are helpful in achieving proper crop rotation for soil conservation. The closure of another California factory would be bad for growers and it would clearly be bad for employees of the factory and related industries. A factory closure would also be bad for the substantial California food-manufacturing sector, which needs to have a reliable, nearby source of high quality sugar. In addition, if acreage now devoted to sugar beets is shifted to another crop, there will be a negative price impact on that other crop.

The closure of Mendota does not need to happen. The relatively small adjustment of 2.5 percent could be achieved in several ways. Assuming some of the change would come from the allocations of other processors, the necessary amount would not be enough to cause them real harm. Moreover, it would be a correction to an effect of the 2002 Farm Bill that was unfair to California and Southern Minnesota in the first place.

Congressman Radanovich suggested that we prepare a letter to be signed by the concerned Members of the California congressional delegation, to be addressed to the chairmen of the House and Senate Agriculture Committees, asking that this problem be corrected in the new Farm Bill. The growers and processor personnel who attended the August 15 meeting agreed that this is a step we should pursue.

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